Crop Insurance Broadcast
Summary, Conclusions, Alternatives and Input

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Some useful references

• Web addresses
  Farm Service Agency
  http://www.fsa.usda.gov/
  Risk Management Agency
  http://www.rma.usda.gov/
  USU business management
  http://extension.usu.edu/coop/ag/agbus/

• A basic text
  Managing Risk through Crop Insurance
What insurance alternatives are available?

- Crops that are not insured in your area
  1. Self insurance
  2. NAP
  3. Initiate an actuarial change request

- Crops that are insured
  1. CAT
  2. Production coverage (MPIC, GRIP)
  3. Revenue Coverage (CRC, RA, IP)
What are the chances that a loss will occur?

- Depends on the type of event (drought, insects, etc)
- Historic data and experience are key elements. Some disasters can not be predicted.
- Expected values provide insights
Dry land wheat production in 2001 as a percent of 5 year average

<table>
<thead>
<tr>
<th>County</th>
<th>Percent</th>
<th>County</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Box Elder</td>
<td>77%</td>
<td>Cache</td>
<td>64%</td>
</tr>
<tr>
<td>Davis</td>
<td>60%</td>
<td>Morgan</td>
<td>56%</td>
</tr>
<tr>
<td>Rich</td>
<td>60%</td>
<td>Salt Lake</td>
<td>63%</td>
</tr>
<tr>
<td>Toole</td>
<td>64%</td>
<td>Weber</td>
<td>57%</td>
</tr>
<tr>
<td>Juab</td>
<td>52%</td>
<td>Utah</td>
<td>56%</td>
</tr>
<tr>
<td>San Juan</td>
<td>92%</td>
<td>Uintah</td>
<td>51%</td>
</tr>
<tr>
<td>Iron</td>
<td>80%</td>
<td>Millard</td>
<td>47%</td>
</tr>
</tbody>
</table>
Expected Values

- Explicitly incorporate probability
- Example

Actual Production History = 32 bu/acre

Expected yield | probability
---------------|-------------
10 bu/acre     | .2          
20 bu/acre     | .4          
30 bu/acre     | .3          
35 bu/acre     | .1          

Expected value = 10*.2 + 20*.4 + 30*.3 +35*.1
= 22.5 bu/acre

Percent of APH = 22.5/32 = 70.31%
Budgets are the primary methods used to evaluate insurance purchases

- **Partial budgets** based on enterprise budgets for a farm (Costs and Returns with and without insurance)
- **Cash Flow budgets** (impact of losses and gains on family living and debt payments)
- **Whole farm budgets** (impact of losses and gains on other enterprises)
What are some actions that might be taken associated with potential crop losses?

- Accept the expected risk (self insure)
- Plant crops that are not susceptible to the losses that might be incurred.
- Take actions to reduce losses (irrigation, spray, etc)
- Shift risk to someone else
  - Insurance
  - Crop share rather than cash rents
What do you need to do to obtain crop insurance?

• Assemble verifiable crop production records (acres and production for each crop or field---five years suggested)
• If using NAP go to local FSA office
• If another type of insurance is wanted contact a representative of a crop insurance firm
## Example premiums for insurance on Wheat crop

(Morrow county Oregon, 2002)

<table>
<thead>
<tr>
<th>Level of coverage</th>
<th>MPCI premiums per acre</th>
<th>CRC premiums per acre</th>
</tr>
</thead>
<tbody>
<tr>
<td>50%</td>
<td>$0.52</td>
<td>$0.80</td>
</tr>
<tr>
<td>55%</td>
<td>$0.66</td>
<td>$1.06</td>
</tr>
<tr>
<td>60%</td>
<td>$0.80</td>
<td>$1.30</td>
</tr>
<tr>
<td>65%</td>
<td>$1.10</td>
<td>$1.83</td>
</tr>
<tr>
<td>70%</td>
<td>$1.42</td>
<td>$2.39</td>
</tr>
<tr>
<td>75%</td>
<td>$2.10</td>
<td>$3.51</td>
</tr>
<tr>
<td>80%</td>
<td>$3.25</td>
<td>$5.45</td>
</tr>
</tbody>
</table>
Some basic conclusions

- Crop insurance purchases like other types of insurance is something you hope will not be needed.
- The amount of coverage will vary for each producer.
- The federal government subsidizes the premiums paid for crop insurance and NAP.
- The subsidy decreases as the level of coverage increases.
Some basic conclusions (continued)

• The cost of crop insurance is a fixed cost once it is purchased and should not affect future decisions until next year.

• Accurate production records are needed to take full advantage of use crop insurance and programs in the 2002 farm bill.

• The cost of insurance (premiums) increase as the level of coverage increases. There is not a single “best level” of coverage.
Questions and Comments

• Was the information provided today useful?
• What else is needed?
• What programs or information is needed for farmers in your area?
• How might this be best provided?
• Send written comments to bruceg@ext.usu.edu
Thank you and hope/pray for more rain and a wet winter. We all need it.